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M&A

ANALYSIS ON AMAZONS' ACQUISITIONS: A PATTERN

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Abstract

According to Statista (2018), consolidations of companies through M&A activity have reached the $4,4 trillion mark this year. With a number that is almost three times the Russian Federation GDP, it is important to understand what the main drivers are leading to these businesses' mergers and acquisitions.

This research will execute a deep analysis on Amazons' acquisition strategies and discern the key drivers encouraging the acquisition of emerging companies rather than copying and implementing these ideas and processes. Through hypotheses testing this work project will try to identify a trend in Amazons' acquisitions drivers to later identify the most relevant ones bearing in mind that acquisitions are categorized either to **expand or defend** Amazons' core business.

Keywords:

Amazon, Acquisitions, E-commerce, Key Drivers

Literature Review

Given the focus of this research on merger and acquisitions it is important to define each term, these terminologies are not the same but are often used interchangeably. Alaos' (2010) and Fatimas' (2014) definitions of M&A are regarding the banking industry, definitions that are valid towards the technological industry as for all other industries. In an acquisition one organization purchases a part or whole another organization (Alao, 2010) while a merger is the combination of two or more entities by purchase acquisition whereby the identity of one of the entities remain while the other is dissolved (Fatima, 2014). These types of deals are usually beneficial for the maximization of shareholders wealth due to economies of scale, tax benefits, infiltration into new markets, replacement of inefficient processes and an overall reduction of risk (Georgios and Georgios, 2011).

M&A roots begin in the United States in the later part of the 1980s and later in Europe in the nineteenth century (Focarelli, Panetta and Salleo, 2002). M&A was used as a tool to restructure corporations, initially an activity restricted to companies in developed countries. Eventually the increasing competitiveness at a global scale led to the widespread adoption of this strategy spreading to the emerging countries as well. The evolution of M&A can be traced back to almost 130 years and broken down in six periods.

The first period took place between 1893 and 1904, known as the "great merger period", and was marked by the gain in synergies in manufacturing, companies that operated mainly in the light, steel, oil and railroad industry. This cycle took place in the form of horizontal mergers and occurred in the heavy manufacturing industries (Fatima and Shehzad, 2014). These were firms that wanted to achieve a monopoly status to benefit from economies of scale.

During the second period (1919-1929), the government intervened in the market by creating laws prohibiting anticompetitive behaviour, which led to the merge of businesses to establish oligopolies rather than monopolies. This period is also characterised by the appearance of vertical consolidation (Sudarsanam, 2003). Major players were in the transport, oil and gas industry focusing on more efficiency-oriented strategies. The main benefit during this cycle was felt within the logistics sector where the cost of finding suppliers and distributors as well as the cost of negotiating were eliminated as these companies were now a single entity. This period marked the appearance of the banks' role in assisting deals by granting loans to investors on favourable terms. The stock market crash of 1928 and the great depression ended this wave (Golubov & Petmezas, 2012).

The third period occurred between 1955 and 1969 and focused on conglomerate mergers and acquisitions, companies from different areas of business came together to diversify their revenue stream by entering new markets. This type of approach to M&A at the time led to diversification in deals, firms from different sectors coming together. In Europe, cross-border horizontal mergers took place as a preparatory step for the common market (Golubov & Petmezas, 2012). The wave started to move towards the end as consolidation of unlike firms and organizations began to post unsatisfying results in 1968 (Fatima and Shehzad, 2014). The end of this period was marked by a crash in share prices that was originated by the oil crisis.

The fourth period was marked by hostile takeovers, from 1980 until 1989, a takeover is considered hostile if the response of the board of directors of the target firm is negative, a type of acquisition made without the consent of the owners. This period was also marked by the role investment banks played and the enormous amounts of cash received in order to aid their clients, known as "corporate raiders" in their attempt to take control of another company. Eventually banks had lent too much capital, marking the end of the cycle with the crash of the stock market in the end of the 1980s leading to the bankruptcy of many companies.

The fifth period (1993-2000) had at its core globalization of competition and thriving stock prices putting pressures on managers to do deals (Golubov & Petmezas, 2012). US companies began entering foreign markets and vice-versa through “cross-border mergers”. This period was market by one of the biggest deals in history; Vodafones’ (UK) acquisition of Mannesman (Germany) in 1999 for $183 billion in an all share deal. The deals were backed by equity capital to a certain extent as compared to debt finance (Kouser & Saba, 2011). During this period the volume of M&A globally increased from roughly $300 billion to above $3 trillion. The end of this period was marked by massive accounting scandals from big corporations and with the burst of the dot-com bubble.

Increasing globalization and shareholder participation marked the sixth period (2003-2007), occurring on the back of a recovery period from the dotcom bubble. The former led large companies to become even larger by extending their reach to the global ecosystem and the latter by exercising their ownership rights led to the inflow of private equity investments, cash financed deals were significantly more pervasive over this period (Alexandridis, 2012). In 2003 the dramatic announcement of the largest loss in US corporate history; AOL Time Warner’s $100 billion loss one year after merging with America Online did not stop the increase in M&A deals of roughly 4 times during this period. The 2008 financial crisis led by the subprime mortgage crisis in the US marked the end of the last wave recorded until present.

In the period from 2008 to 2017 the increase of M&A deals was of 18%, which does not even resemble a formation of a new period that is significant. Interestingly, this is a period of extremely interest low rates, several quantitative easing programmes both in the US and Europe have allowed companies to raise capital at historically low levels. Therefore, it concludes a lack of correlation between companies’ ability to obtain finance at low cost and number of M&A deals.

1. Introduction

Delloite (2018) conducted an analysis on the key drivers leading to an increase in the number of M&A activity in 2018, stating "corporations and private equity firms foresee an acceleration of merger and acquisition (M&A) activity in 2018—both in the number of deals and the size of those transactions". It is crucial to understand the key drivers that will drive this increase in the volume of transactions. Why do companies spend large sums of money in acquiring other firms?

We are currently living in a global world dominated by technology and innovation where data is king for technological companies. Naturally many key drivers should directly or indirectly revolve around the gathering of data. Nevertheless, different wave periods have demanded different key drivers for acquisitions. It started with the need for economies of scale, then it worked as an improvement in the overall company's' efficiency by integrating vertically, one common goal in most of acquisitions is the quest for synergy gains. Synergies are achieved when the value of the combination of the two firms is greater than the sum of the two stand-alone values (Jensen and Ruback, 1983). Later the reasons for M&A revolved around expansion and diversification based on the desire to enter new markets and diversify revenue streams.

According to the report released by Delloite (2018) there are seven major key drivers that prompt acquisitions: technology acquisition (20%), expanding customer bases in existing markets (19%), adding to products or services (16%), digital strategy (12%), entry into new geographic markets (11%), talent acquisition (9%), obtaining bargain-priced assets (6%). Are these the drivers for Amazons' quest when acquiring companies or does its retail nature of the business demand other reasons? One key driver that is not mentioned in the report is the elimination of a direct competitor, acquiring it to prevent a potential domination of the market, this will be discussed later on as it is relevant for Amazon.

1.1. Company Overview

Amazon is an e-commerce retailer that originally started as an online bookstore and quickly grew to become a conglomerate having disrupted several industries. Today, the company is the largest internet retailer and cloud computing company in the world, produces consumer electronic products and provides services to developers and enterprises through Amazon Web services. The company was founded in 1994 by Jeff Bezos and in just five years he was named "person of the year" by Time Magazine, award given to a leadership that enabled unprecedent levels of growth and improved consumers lives. The company held its Initial Public Offering in 1997, raising a total of $108 million in funding over two rounds and is currently valued at roughly $700 billion, it employs roughly half a million workers and last year reported $178 billion in revenues. Part of this growth and revenue was enabled due to acquisitions made by the company. See appendix 1 for all acquisitions made between 1998 and 2018.

1.2. Competitive Environment

Amazon operates mainly in three general segments: e-commerce, cloud computing and subscription services. To better understand its relevance within each and every industry it operates in, looking at the company's revenues per segment will provide a better picture of the company's area of focus and potential competitors. According to Statista (2017), Amazon generated $140 million through online stores representing roughly 63% of total revenues, $32 million in market place fees, $17.5 million in cloud computing services and $10 million with Amazon prime, an annual fee subscription that includes streaming contents and discounts on shipping items.

Amazons' main competitor is Alibaba within the e-commerce business, nevertheless it also competes with Google, Facebook and Microsoft in the cloud computing market and with Netflix and HBO for the Stream media/subscription services share of the market. It is important to note that the majority of these companies are automatically competing with each other for collection of data of their users in a world where information is vital; Amazon and Alibaba make use of data to better understand its consumers and to easily target them, Facebook would not survive without the collection of data, a source of revenues with targeted advertising while Netflix provides users with content based on the data it collects from movies watched in the past.

Alibaba has 550 million active buyers per year with 80% of market share in China, Amazon has 390 million active users counting with Amazon Prime, which represents 30% of the US market. For Amazon, this provides more opportunities for a domestic expansion in a market that is already dominated by the company. Therefore, Amazon enjoys a more comfortable position than Alibaba for expansion when looking into the future, the latter will eventually penetrate the US market given its full capacity in its domestic market, but it should not rely on the success of previous strategies as differences in cultures have a big impact on consumers' preferences. When compared to Alibaba, Amazon seems to be more appealing for users to buy and sell products due to the company's efficiency in complementing every step of the service; from the click on Amazons' website to package delivery at the door step, making use of outstanding technology. Examples will be given in the acquisitions' section; how Amazon makes use of other companies' technology and processes to improve its business model and the overall consumers' experience.

1.3. E-commerce growth

E-commerce companies in the past had very specific business service as third-party distributors to buyers and sellers to facilitate trade. The interesting aspect of Amazon and Alibaba is their dominance in the market given the different segments they operate in. This is possible because of data collection. We have entered a stage where information processing is crucial to any technological company, especially one that not only uses that information to sell but to better understand their consumers. With the e-commerce platform Amazon collects and uses information to advice consumers on the best products to buy, those products that are in line with their purchasing habits. In the Amazon prime business, the same model is used, information regarding past movies seen by the customer allows the company to recommend movies that will most likely be of the users' interest. Amazons' recent penetration in the smart home technology market with the acquisition of Ring together with the development of the Alexa voice technology shows how well positioned the company is to dominate the information age. In section 4, a deeper discussion of Amazons' acquisition will show clearly how the firm has been expanding its reach to new markets and sectors to become more relevant by using the information it gathers to its fullest potential.

2. Acquisitions

2.1. History

Amazons' historical M&A strategy has been first and foremost to organically build and if not successful then acquire. It has traditionally been a conservative buyer and less acquisitive than its tech giant competitors. Nevertheless, the tide seems to be turning. Appendix 2 shows the growth in the number of businesses acquired by the biggest tech companies throughout the years. The number of acquisitions made by Amazon has been growing at a constant level over time, on the other hand Google and Facebook seem to be on a negative trend since 2010. Could Amazon, historically a conservative buyer, close the gap in the number of acquisitions made when compared to other tech giants?

During the 90s, Amazon acquired a total of 13 companies having spent roughly $1 billion in book stores and e-commerce businesses. The majority of these companies had a similar business model and operated in identical sectors, allowing Amazon to expand its customer base in existing markets and grow the core business. Between 2000 and 2009 the volume of M&A doubled, the company acquired 21 companies with emphasis on online retailers and publishing companies which allowed to increase its digital presence in the market and make use of synergies from publishing and selling books online. From 2010 to present days, Amazon spent just above $20 billion in 46 acquisitions allowing the company to rise as the most important company in the twenty first century when dealing with the future of shopping. The acquisition of Whole Foods in 2017 with the goal of penetrating the grocery and bricks & mortar space is a good example of the company's drive to improve society's way of shopping. Further discussion in section 2.2.

2.2. Key Acquisitions & Main Drivers

Amazons' first acquisition in 1998 for $55 million was IMDb, a searchable film/TV database, to support its eventual entry into online video sales by using it as an advertising resource for selling DVDs. This is a clear example of an acquisition with the purpose to diversify the offering of its services to improve the consumers' experience. Not only did the platform provide awareness of the best/worst movies but it also made available the actual movies to purchase. The data generated from IMDb was crucial for the construction of Amazons' store and allowed a company, that was primarily a bookseller, to move into video. Col Needham, founder and CEO of IMDb had a crucial role in the growth of the company and used some of Amazons' ideas such as "IMDbPro" to increase the value of its company by offering value added services where artists can manage their IMDb profile and network. Amazon taps IMDb ratings for its own online video services and links movies through to Amazon prime to increase sales by pushing relevant movies to customers. X-Ray is another interesting combination between Amazon prime and IMDb where data serves up relevant information without having to rely on a second screen to google information, rather the user interacts instantly with the movie. This is a major differentiator factor from other movie streaming platforms. Hence, Amazon focus is on the potentiality of the project it wants to acquire and how it can increase its value and actual use by leveraging on Amazons' core business. Amazon was able to predict a future that would combine data collection and provision while streaming services. The acquisition led to the 1) expansion of the customer base and 2) creation of synergies.

In 2009, the company bought an online shoe business named Zappos for $1.2 billion. A deal where the acquired company would operate independently from the parent company, as this seems to be one of the secrets of success of Amazon, allowing target companies to grow as they were before the deal. Tony Hsieh, CEO of Zappos, stated "We think of Amazon as a giant consulting company that we can hire if we want". The interest from Amazon in the shoe retailer comes mainly from their lack of ability to penetrate the online shoe market. Prior to the acquisition, Amazon created a website "Endless.com" to sell footwear, the website was receiving five times less visitors than "Zappos.com" on average. Consumers tend to shop at Amazon for media and electronic products and the company lacked brand recognition for footwear products. Absorbing a company with high levels of growth and incorporate into the Amazons' brand, the company was able to 1) expand its customer base by accessing a different target segment and 2) to eliminate one direct competitor in the shoe business.

In 2010, Amazon acquired Woot, a daily deals e-commerce company for $110 million. Woot had created a vibrant community and Amazon would make use of its existing store data to leverage that model when targeting different niche communities. This is another case where the company acquired would be run autonomously under the Amazon banner. Matt Rutledge, CEO of Woot in a letter to his employees wrote “It will be as if we are simply adding one person to the organizational hierarchy, except that one person will just happen to be a billion-dollar company”. Amazon learned from Woots’ capacity to reach niche segments and later on adapted to its business model. With this purchase Amazon became relevant to a new type of consumers that think of Woot as a “cooler alternative” to Amazon. If it had not been acquired, Woot would probably represent a threat to Amazons’ long term endurance based on the “cooler alternative” motto. Therefore, the purpose when acquiring Woots was 1) to expand its customer base and 2) to eliminate competition.

In 2017 Souq was acquired by Amazon for $580 million. Souq is the biggest e-commerce player in the Middle East, many times referred as “the Amazon of the Middle East”. This story illustrates the main question of this paper: why would Amazon pay roughly half a billion dollars for a company operating in a different geographical location that does the same thing as Amazon? The answer is: Time. It takes time and a lot of effort to acquire new customers. Furthermore, Souq is a company with a successful and proven business model, taking pride on their logistics and selling it as their value added in a geography where Amazon lacks expertise. It was perhaps the easiest acquisition made by Amazon when it comes to decision making, a business that is customer centric, offers a large range of products at low prices and optimises business margins. The reasons for the acquisition were 1) entry into new geographic markets and 2) driving out a potential threat to its own survival in an ever more globalized world.

2.3. Revolutionizing purchasing habits

The largest ever acquisition made by Amazon was in 2017 with the purchase of Whole Foods for $13.7 billion giving the firm an entry point into the food industry with roughly 400 physical locations in the US. After having revolutionized the online shopping experience the company is looking to do the same for the offline. Amazon Go is a good example of this, an innovative technology integrated into a traditional service to improve the costumer experience; by installing a phone app, anything the customer picks up is added to their virtual cart. Amazon uses computer vision and deep learning algorithms to facilitate customers lives, leading to an expansion of its own customer base. Customers that previously did not purchase offline will most likely do so after engaging with this type of useful technologies offered by the firm. What customer would ignore a business model that eliminates queues and physical payments when shopping for groceries?

This acquisition is another example of the company's ability to leverage on its business model to provide customers with the best experience. 1) It expands its customer base in existing markets by bringing customers from the online to the offline space and vice-versa and 2) creates synergies to achieve 1.

2.4. The Last Mile problem

The last mile delivery cost represents on average 53% of the overall shipping expenses. Amazon connects customers directly with local couriers to deliver products, very similar to Uber for mobility and Airbnb for housing. In 2011, Amazon created a self-service delivery program known as "Amazon Locker"; a customer can choose to have the package delivered to the nearest locker and once the package is delivered the customer can pick up the product. These lockers are in more than 2,000 locations and over 50 cities in the US, reflecting the importance to customers and small businesses of product delivery. However, Amazon believes that a more efficient delivery system and experience for the customer is possible.

In February 2018, Amazon bought Ring for roughly $1 billion, a company that sells smart doorbells and security cameras. Amazon had previously invested in Ring to help scale its Alexa voice technology, which is another complement to its online-shopping service. (Further discussion of Alexa technology in section 3.3.1). Rings' doorbells are built with camera and audio equipment so that the customers can interact with the delivery staff and answer their doorbell ring remotely. On top of this, Ring is also developing facial-recognition software which would add value to the whole operation. Synergies between Alexa, Ring and Amazon Prime enables Amazon to further expand its products and services; more customers will sign up for Prime membership to have access to these innovative services, hence by improving the customers' experience it will almost instantly expand their retail spending patterns in a virtuous non-ending cycle. Bringing together different type of technologies from different areas to create a revolutionary service is what Amazon does best.

3. Finding a pattern in Amazons' Acquisitions

3.1. Defining the hypotheses

Amazon is currently the biggest e-commerce firm worldwide. Generating almost $180 billion in revenue per year with a market cap of roughly $700 billion, the company has disrupted several industries successfully. In 2011, Amazon acquired Quidsi for $500 million, two years after the deal the co-founder and CEO left the project and launched a business that directly competes with Amazon. In 2017, Quidsi was shut down due to profitability concerns.

This being said, why does Amazon keep spending large amounts of cash in acquiring emerging companies, particularly in the last 8 years ($~20 billion) vs 2000-2009 ($~3 billion), when it could replicate successful ideas and push original companies out of the market?

In a fast-changing world, it is becoming more challenging to keep up with unprecedent changes. Companies must quickly adapt to survive. Replicating successful ideas and processes takes time, effort, patience and many employees to successfully achieve the desired goal. The risk can be extremely high. To understand the reasons for the large number of acquisitions made by Amazon, several hypotheses will be constructed based on previous analyses made in this report:

Hypothesis 1: Amazon acquires emerging companies with revolutionary technology to internalise in its operations and provide users with a better experience than before.

Hypothesis 2: Amazon acquires companies that align with main areas of business and possess relevant customer data. Therefore, it expands the customer base by pushing existing products to a group of customers that the company was not able to target prior to the acquisition.

Hypothesis 3: Amazon acquires companies to enter new geographic markets, companies that provide know how in that geographical area and added value with human resources.

Hypothesis 4: Amazon acquires companies that improve the firms' competitive situation through synergies.

Hypothesis 5: Amazon acquires companies that demonstrate high growth levels in relevant markets and that pose a threat to their long-term survival.

3.2. Hypothesis Process

Amazon has acquired 80 companies since 1998. In 2017 the company made 10 deals, exceeding any given year when it comes to M&A activity. After looking at each acquisition from the quantitative and qualitative side, through research on financial and broker reports each will be tested for every hypothesis to identify patterns in acquisitions made by Amazon. See appendix 1 for extensive analysis of all companies. Hypothesis 1, 2, 3 represent the expansion of its core business whereas hypothesis 4 and 5 focus on protecting its core business.

3.3. Hypothesis 1

3.3.1. Artificial Intelligence

23% of companies were acquired, in part, due to the technology offered and as a result the customers' overall experience when using Amazons' services was improved. Amazon Go convenience stores implement machine vision to eliminate queues, Prime Air drones deliver at faster speeds via automated object detection, Alexa applies AI to offer a voice interface through the cloud giving Amazons' customers a better experience when searching, ordering and purchasing online through vocal commerce. The importance of absorbing new technologies into its core business model is demonstrated by selling Alexa devices at a loss, pricing them at roughly 15% less than what it costs to produce, making a loss both in 2016 and 2017 of $300 million and $600 million respectively. In 2017, Jeff Bezos wrote in a letter to shareholders, describing the importance and promise of AI "Machine learning drives our algorithms for demand forecasting, product search ranking, merchandising placements, fraud detection, translations, and much more". After careful analysis over each acquisition made by Amazon, the company acquires other businesses that possess incredible technologies and that by internalising these technologies in the provision of services the overall experience of the consumer is significantly improved. Amazon operates in different industries and through the incorporation of new technologies it creates an ecosystem that is efficient, reliable and revolutionary.

Other companies that Amazon has acquired due to the technology it provided with a good fit to incorporate are: Blink, Ring, Body Labs, Evi Technologies.

3.3.2. Alexa Fund

Amazon invested $100 million in 2015 to create a fund that complements on the acquisitions made. The number of equity deals has increased as a result of the Alexa Fund (See appendix 3), integrating emergent technologies into Alexa's' smart home business.

The fund invests in early stage companies: Ecobee, Semantica Labs, Comet, Rachio, TrackR and DefineCrowd; the latter provides language processing for 90% of all languages, this comes as valuable to amazon as the Alexa service only operates in English. Therefore, it is not only about the acquisition a company makes, but how well it is able to develop it to achieve full utility. Companies like Google and Microsoft have 3 times the budget, when compared to Amazon, to improve and develop their own technologies which shows the importance of the acquisition follow up.

3.4. Hypothesis 2

3.4.1. Data is king

"All of the major companies will do this. You need a lot of data to do extraordinary things" (Jeff Bezos, 2016). From 1998 to 2018, roughly 60% of the companies acquired by Amazon fulfil the aggregation of data to expand the customer base. Overall, the importance of information is very high, online businesses thrive through analysis of consumers purchasing habits and preferences, this is true for almost every area that amazon operates in.

3.4.2. Books, Media & Streaming

Amazons' first big move was into the book industry. Without the need for physical stores, the company settled on book selling purely on margins. Later, the expansion of these margins came from the acquisition of other publishers, allowing for an expansion of the customer base while improving features by making use of customer data. The acquisition of Twitch in 2014 for almost $1 billion expanded the streaming business by penetrating into a new target segment in the video gaming industry and further consolidated its strong position in the video streaming totalling 185 million viewers in 2017 (+ 38% vs HBO).

Other acquisitions in this area include: The Book Depository, ABE books, Box Office Mojo, Withoutabox, Goodreads

3.4.3. Infrastructure as a service

Amazon Web Services (AWS) provides companies and developers with the opportunity to reduce costs on software. By doing so, it gathers data from users, and this is perhaps the tipping point that transformed Amazon into a true tech player rather than a pure e-commerce business. Amazon has acquired numerous businesses to maintain its position as a market leader: GameSparks gives developers a cloud-based platform to build severs; Cloud9IDE creates a platform for software developers; Harvest and Sqrrl provide security to the offering of cloud services. These are companies that meet specific developers needs and brand Amazon as the most accessible and desired institution to write code where creative developers have the most relevant advancements in technology to develop effective tools and systems to meet customers' demands. In return, Amazon has access to unlimited data through which it stores and analyses, thereby identifying behaviours and selling accordingly.

Other acquisitions of interest: Annapurna Labs, Graphic, Nice

3.4.4. Breaking into the old way of doing things

Whole Foods represents almost 60% of all money spent in acquisitions throughout Amazons' history. Why would Amazon spend such large amount of capital in a physical/offline business model that it always ignored? Amazons' ability to adapt to changes and update its business model according to new market trends is as important as the information it is able to gather. In this case, not only does the company capture a portion of customers that was not able to do in the online market by selling tech in physical stores, but it now has access to thousands of shoppers purchase and consumption behaviour to efficiently target and sell products.

3.4.5. Advertising

It is important to note another very important source of revenue that is based on the company's ability to generate customer data, analyse it and sell it. In 2017, Amazon received roughly $4 billion in advertising income whereas Facebook made $27 billion. Appendix 4 shows the growth in Amazons' ability to generate income through advertising, where customers data (purchasing behaviour) plays a crucial role in giving the company this ability. In 2018, Amazon grew 55% to $6.2 billion in revenue whereas Facebook grew 25% to $34 billion in revenue. According to eMarketer, in 2017, Google and Facebook accounted for almost 60% of the advertising market share; will Amazon be able to break this advertising duopoly? Martin Sorrell (head of WPP), when asked what would keep him up at night, replied "It's Amazon, which is a child still, but not 3 months". Amazons' ability to integrate advertising with its AI Alexa system would certainly move the company closer to joining the oligopoly group where brands may willingly pay to be at the top of Alexa recommendation as they pay for shelf space and Google top search results. The different areas that Amazon operates in allows companies to dynamically advertise by finding innovative ways to push brand awareness to customers and this is what might just give Amazon the edge in the advertising space.

3.5. Hypothesis 3

3.5.1. Overseas Expansion

16 companies have been acquired by Amazon with the purpose of expanding into new countries. (See appendix 5 for a division by countries) The majority of its efforts to conquer new markets has been done through partnerships around the world. Efficiency favours the company’s strategy overseas: the risk of absorbing a whole new culture may prove to be capital irresponsible while signing partnership contracts provides know how and ability to implement similar processes elsewhere without the requirement to own an enterprise overseas and with it the unknown macro risks that the company does not fully understand. Nevertheless, Amazon has been facing intense competition in its overseas efforts and for that reason it acquired 6 companies to enter the European market for roughly $500 million and 4 companies to enter the Asian market for almost $900m. The latter, given its most fierce competitor (Alibaba) in China, led Amazon to invest roughly $3billion in strategic partnerships to expand its foot print in the Asian e-commerce. “We're happy to be part of one of the world's most dynamic markets". (Jeff Bezos, 2004)

3.6. Hypothesis 4

3.6.1. Synergies

Amazon did not acquire Whole Foods for its revenues, in fact 30% price cuts were implemented the day after the purchase. Amazon is trying to solve its last mile delivery issue by offering a dynamic shopping experience, leading to more sales of e-commerce products. The synergy comes in the form of a location where consumers can pick up their products and personally interact with the company by having a last mile channel.

Almost 50% of companies have been acquired due to potential synergies where Amazon would benefit from maintaining its competitive position in the market. As tech companies grow the need to be as efficient as possible becomes imperative, global competitors are able to gain competitive advantages through synergies: cost and speed efficiencies. “We know that customers want low prices, and I know that’s going to be true 10 years from now. They want fast delivery; they want vast selection”. (Jeff Bezos, 2015)

How does a company maintain competitive prices and delivery targets for a decade? Looking for synergies and acquiring them. Amazon requires efficient analyses of data for the provision of excellent services to consumers, therefore it acquired Amiato, a platform that extracts unstructured data from databases, creates structure and integrates with business intelligence tools. This is an acquisition that will have a use in every data company that Amazon acquires, playing the most important role: making sense of information. Amazon reduced expenses in fulfilment centres by 20% after integrating Kiva Systems, a company that designs and produces robots to receive, process and deliver orders to customers. Finally, it lowered costs and lengthened battery life of gadgets such as Echo speakers and cloud cameras with the acquisition of Immedia, a semiconductor.

Other relevant acquisitions: GoButler, Clusterk, Comixology, Evi

3.7. Hypothesis 5

3.7.1. Kill or be killed

According to the analysis, from 1998 to 2008, 15% of companies could have posed a threat to Amazons' survival and therefore were acquired. Facebooks' acquisition of WhatsApp is an example that illustrates the difficulty in analysing the reasons for an acquisition. On the one side, WhatsApp provided huge amounts of data that Facebook could make use of but at the same time it could eventually become a company competing for the social media space exactly because of the data it was able to gather. Zappos is a recent example of a threat to Amazons' long-term survival as the company was having difficulty competing in the online shoe market, it had limited experience and the Zappos' proposition was more appealing to consumers. Could Zappos eventually compete with Amazon by selling other products other than shoes? Just like Amazon started with book sales, it eventually grew to sell advertising, streaming and software services. Given the globalized economy, Zappos could have eventually grown to an extent that it would directly compete with Amazon in all business areas as a conglomerate.

After acquiring almost 20 e-commerce businesses, Amazon currently accounts for roughly 45% of Americas' e-commerce market

Other acquisitions: Diapers, CDNow, Shopbop, Brilliance Audio

3.8. Issues with testing Hypothesis

The timing of a new technology, the needs of the company and the financial situation play a crucial part in shaping the reasons for purchasing another business. Given that the hypothesis tests presented in this paper are not mutually exclusive, ideally a company that is acquired would satisfy all 5-hypothesis, making challenging to identify the dominant driver. Perhaps, the less non-mutually exclusive hypothesis would be H2, H3 and H5; Amazon acquired Joyo to enter the Chinese market, as the dominant driver, and by doing so it was able to gather large amounts of new data, extremely relevant for the long-term survival in the book and video business. Would the Chinese company pose a threat to Amazons' survival if it had not been acquired? Probably not given the geographical markets they operate in, markets with different cultures and ways of doing things. Nevertheless, the Chinese company could potentially become, in the long term, the leader in the e-commerce space due to the globalize world we live in and therefore pose a threat to Amazons' survival.

4. Results

As previously mentioned, Amazon acquires either to expand its core business or to protect it. Hence, roughly 86% of companies can be said to be acquired due to characteristics that contribute to the expansion of Amazons core business. 63% of companies were acquired to aid with the protection of the core business. See the table at the bottom of appendix 1 for a split analysis of hypothesis for specific time periods.

Technology

From 1998 to 2018, H1 is valid for 18 out of 80 companies (23%): Tech companies are constantly looking for the next technological feature to have an edge over competitors. From 1998 to 2002: 2 out of 15 companies (13%) had been acquired for their tech features, totalling $323 million. From 2014 to 2018: 8 out 27 companies (30%) for almost $2 billion.

Data

H2 is the most prominent reason for amazons' purchasing behaviour; more important than revolutionary technology is the ability to aggregate and analyse data to stay "ahead of the game". Until 2008, amazon spent roughly $1.5 billion acquiring 23 out of 30 companies (77%) for its database, from 2008 onwards the company bought 24 out of 50 companies (48%), for almost $4 billion. There is a decreasing trend in H2 perhaps due to the overwhelming amount of data the company already has. Nevertheless, losing ability to collect data would most likely lead to the end of the company as we know it.

Geography Expansion

H3 has become the least prominent when expanding the core business, this is in line with the business model as an online technological firm is able to reach other markets via the internet. Geographical expansion was extremely important in the beginning, from 1998 to 2002 Amazon acquired 6 out of 15 companies (40%), whereas from 2003 to 2018 it acquired 10 out of 65 (15%). The expansion into new geographical areas has been mainly through partnerships rather than acquisitions.

Synergies

H4 has been very consistent throughout Amazons' history, playing a vital role in operational success. This comes as competition with global players have a significant role on prices and cost synergies play a crucial part in many different areas of the operational process. Particularly in the last 5 years, 18 out of 27 companies (67%) contributed to improve Amazons' competitive position either through revenue or cost synergies.

Survival

Throughout Amazons' history, H5 is valid for 12 out of 80 companies (15%). It is extremely difficult to analyse if a company acquires due to long-term risk of survival, due to lack of information. Nevertheless, Amazon has bought rival businesses that were clearly outperforming in a specific business area, Zappos is the most recent example.

5. Conclusion

Reasons for acquiring a certain company may be more valued for expanding vs defending the core, nevertheless we see that almost every acquisition had directly or indirectly contributed to the protection and expansion of the Amazon brand. It seems that the expansion of the core business is linked to the protection of it, one cannot exist without the other. Amazon is not able to expand its business without being protected from an operational stand point, but it also cannot protect itself without expanding into new territories, continuously grow its customer base and being at the forefront of experimenting new technologies that could bring the next innovation into the market. The shift from 2008 onwards has been more on the acquisition of companies with revolutionary technologies and less on businesses to expand geographically, as the latter can be achieved more easily through partnerships. Hypothesis H1 and H4 are relevant in later stage periods (2009-2018) and less so before. H2, H3 and H5 are relevant in the initial periods (1998-2008) and less so after. It concludes that as Amazon grows it acquires similar companies to obtain more data and sell to more customers, we saw this with IMDb, Exchange.com and Accept.com from 1998 to 1999. During the same period the need to expand into new territory, which occurred with Telebook, Junglee and Bookpages, became essential to achieve economies of scale. From 2002 to 2006, the focus became on preventing other players from growing further, this was achieved with CDNow and Shopbob. Later on, the company consolidated its position in the market by making use of excellent operational processes and synergies to reduce costs, which is the case for Evi and Kiva systems. Finally, from 2015 to 2018 with the acquisition of Elemental Technologies and Blink as well as the continuous development of Alexa, the company was able to differentiate from other mature players, Amazon acquired revolutionary technology to improve the experience of the consumer.

Appendix 1: Hypothesis Check

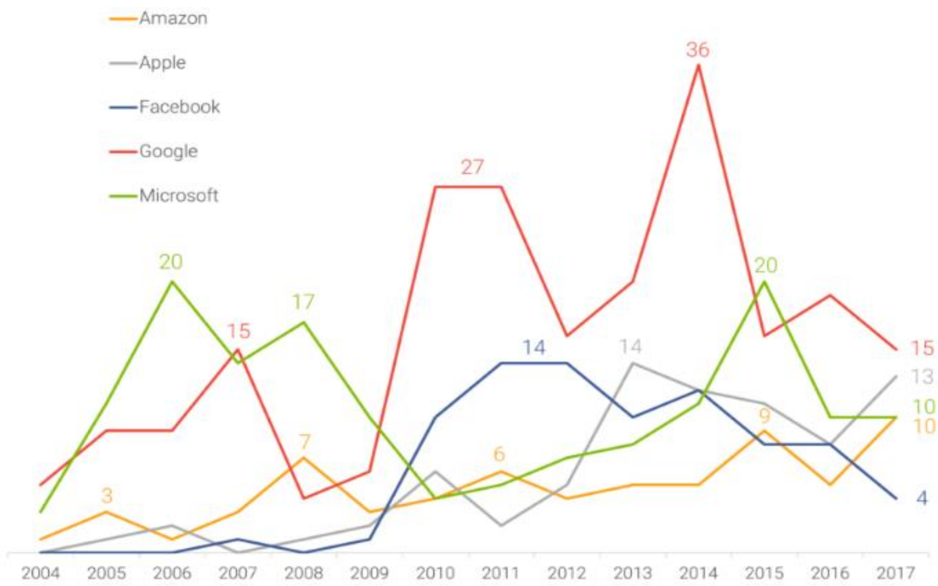
Business	Date	Price	Description	H1	H2	H3	H4	H5
PillPack	2018	$ 1,000,000,000	Health Care	N	N	N	N	N
Ring	2018	$ 1,800,000,000	Consumer Electronics	Y	N	N	Y	N
Sqrrl	2018	$ 40,000,000	AI	N	Y	N	Y	N
Blink	2017	$ 90,000,000	Consumer Electronics	Y	N	N	Y	N
Immedia	2017		Consumer Electronics	Y	N	N	Y	N
Body Labs	2017	$ 60,000,000	AI	Y	N	N	Y	N
Graphiq	2017		AI	N	Y	N	Y	N
GameSparks	2017	$ 10,000,000	Software	N	N	N	Y	N
Whole Foods Market	2017	$13,700,000,000	Retail	N	Y	N	Y	N
Souq	2017	$ 580,000,000	Consumer Electronics	N	Y	Y	N	N
harvest.ai	2017	$ 20,000,000	AI	N	N	N	Y	N
Biba	2016		Mobile	N	Y	N	N	N
GoButler / Angel.ai	2016		AI	N	N	N	Y	N
Cloud9 IDE	2016		Cloud Computing	N	N	N	Y	N
EMVANTAGE Payments	2016		Mobile	N	N	Y	N	N
Orbeus	2015		AI	Y	N	N	N	N
Safaba Translation Solutions	2015		Software	Y	N	N	N	N
Elemental Technologies	2015	$ 500,000,000	Software	N	N	N	N	N
Clusterk	2015		Software	N	N	N	Y	N
Amiato	2015		Analytics	N	Y	N	Y	N
Shoefitr	2015		Software	N	Y	N	Y	N
2lemetry	2015		Cloud Computing	N	Y	N	Y	N
Annapurna Labs	2015	$ 370,000,000	Cloud Computing	N	Y	N	N	N
Rooftop Media	2014		Content	N	Y	N	N	N
Twitch	2014	$ 970,000,000	Social Media	N	Y	N	Y	Y
Comixology	2014		Cloud Computing	N	Y	N	Y	N
Double Helix Games	2014		Gaming	N	Y	N	Y	N
TenMarks Education	2013		E-learning	N	N	N	N	N
Liquavista	2013		Software	N	N	N	Y	N
Screentech	2013		E-commerce	N	N	N	N	N
Evi	2013	$ 26,000,000	Mobile	Y	N	N	Y	N
Goodreads	2013		E-learning	N	Y	N	Y	N
IVONA Text-To-Speech	2013		Software	N	N	N	Y	N
UpNext	2012		Software	Y	Y	N	N	N
Avalon Books	2012		Publisher	N	Y	N	N	N
Kiva Systems	2012	$ 775,000,000	Software	N	N	N	Y	N
TeachStreet	2012		E-learning	N	Y	N	N	N
Quorus	2011		Software	N	N	N	Y	N
Yap	2011		AI	Y	N	N	N	N
Pushbutton	2011		Content	N	Y	N	Y	Y
The Book Depository	2011		E-commerce	N	Y	N	N	Y
Quidsi	2010	$ 545,000,000	E-commerce	N	Y	N	Y	N
BuyVIP	2010	$ 70,000,000	E-commerce	N	Y	N	N	Y

Appendix 1: Hypothesis Check

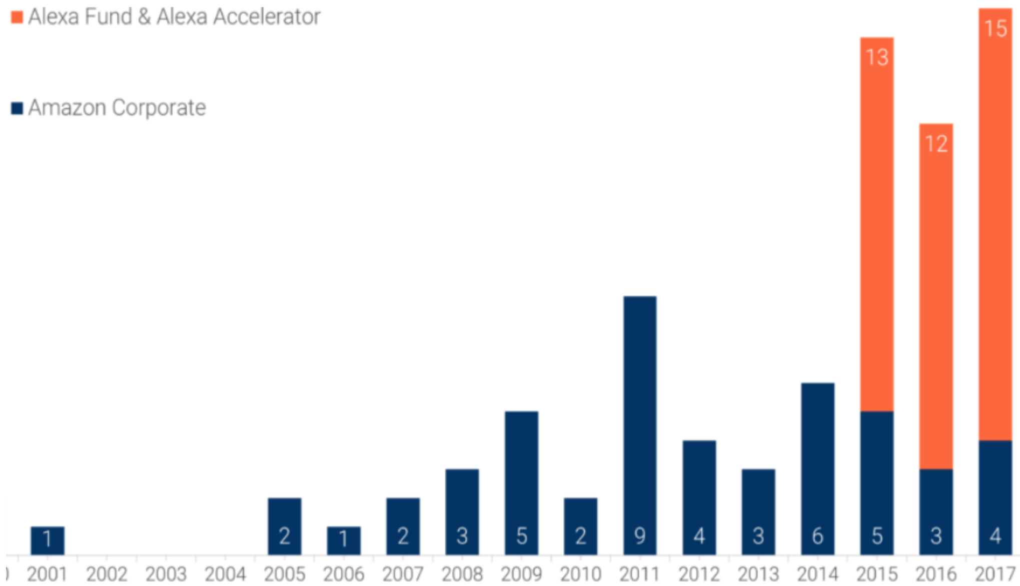
Rubberduck	2010		Social Media	N	N	N	N	N
Woot	2010	$ 110,000,000	Consumer Electronics	N	Y	N	Y	Y
Touchco	2010		Software	Y	N	N	N	N
Zappos	2009	$ 1,200,000,000	E-commerce	N	Y	N	Y	Y
SnapTell	2009		Mobile	Y	N	N	N	N
Stanza	2009		Social Media	N	N	N	N	N
Lexcycle	2009		Mobile	Y	Y	N	N	N
Reflexive Entertainment	2008		Mobile	N	Y	N	N	N
Shelfari	2008		Social Media	N	Y	N	N	N
AbeBooks	2008		E-commerce	N	Y	N	N	N
Fabric.com	2008		E-commerce	N	N	N	N	N
LOVEFiLM	2008	$ 315,000,000	Content	N	Y	Y	Y	Y
Audible	2008	$ 300,000,000	E-commerce	N	Y	N	Y	N
Without A Box	2008		Content	N	Y	N	N	N
Brilliance Audio	2007		E-commerce	N	Y	N	Y	Y
dpreview	2007		E-commerce	N	N	N	Y	N
TextPayMe	2006		Mobile	Y	N	N	N	N
Shopbop	2006		E-commerce	N	Y	N	N	Y
Createspace	2005		Publisher	N	Y	N	N	N
Mobipocket.com	2005		Mobile	N	Y	N	N	N
BookSurge	2005		Publisher	N	N	N	N	N
Joyo.com	2004	$ 75,000,000	E-commerce	N	Y	Y	N	N
CDNOW	2002		E-commerce	N	Y	N	N	Y
OurHouse	2002		E-commerce	N	Y	N	N	N
Leep Technology	1999		Content	N	Y	N	Y	N
Back To Basics Toys	1999		Content	N	Y	N	Y	N
Back to Basics	1999		Content	N	Y	N	Y	N
Convergence Corporation	1999	$ 23,000,000	Software	Y	N	N	N	N
Accept.Com	1999	$ 102,000,000	E-commerce	N	Y	N	N	Y
Alexa.com	1999	$ 250,000,000	Content	N	Y	N	Y	N
Exchange.Com	1999		E-commerce	N	N	N	N	N
LiveBid	1999	$ 300,000,000	Auctions	Y	N	N	Y	N
Bookpages	1998		Publisher	N	Y	Y	N	N
PlanetAll.com	1998		Social Media	N	Y	N	N	N
Junglee	1998	$ 250,000,000	E-commerce	N	Y	Y	N	N
Telebook	1998		E-commerce	N	Y	Y	N	Y
IMDB	1998	$ 55,000,000	Content	N	Y	N	Y	N

Period	Total number of Acquisitions		H1	H2	H3	H4	H5
2018-1998	**80**		**18**	**47**	**16**	**37**	**12**
		% of total Acquisitions	**23%**	**59%**	**20%**	**46%**	**15%**
2018-2014	23		8	13	3	18	1
		% of total Acquisitions	35%	57%	13%	78%	4%
2013-2009	18		7	11	3	10	5
		% of total Acquisitions	39%	61%	17%	56%	28%
2008-2004	16		1	11	4	4	3
		% of total Acquisitions	6%	69%	25%	25%	19%
2002-1998	13		2	12	6	5	3
		% of total Acquisitions	15%	92%	46%	38%	23%
Incl. 2009 upwards	50		15	24	6	28	6
		% of total Acquisitions	30%	48%	12%	56%	12%
Incl. 2008 downwards	30		3	23	10	9	6
		% of total Acquisitions	10%	77%	33%	30%	20%

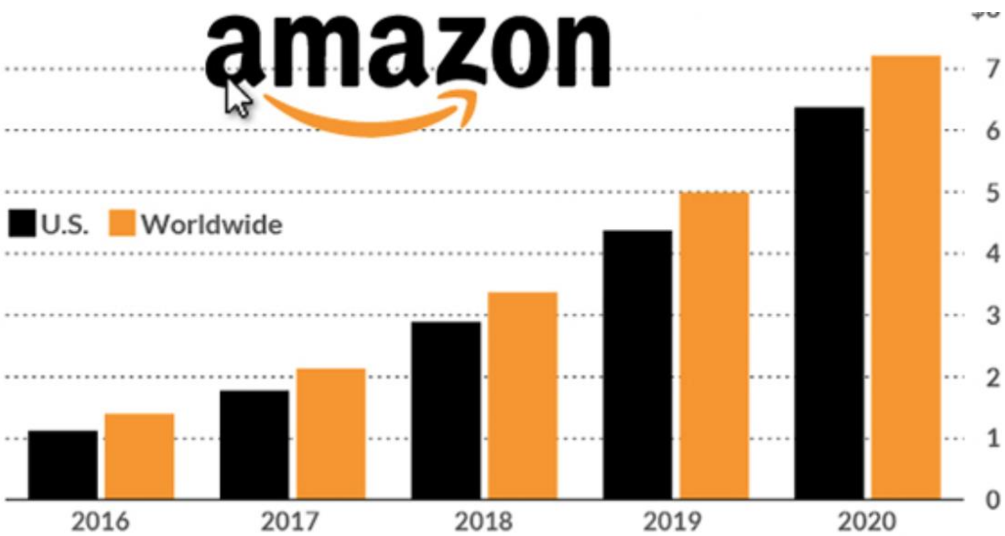
Appendix 2: Amazon's acquisition activity grows steadily



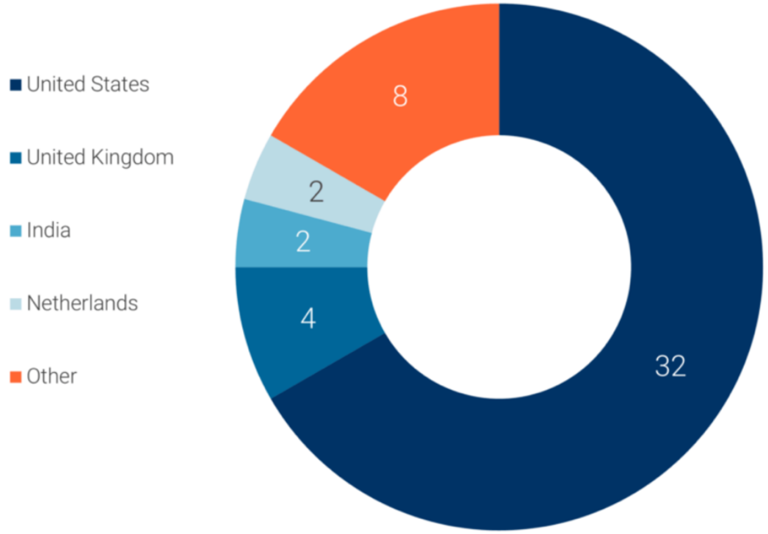
Appendix 3: Equity deals with Alexa Fund



Appendix 4: Catching up in Advertising



Appendix 5: Acquisitions by country



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